

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: Real Estate – Pension Consulting Alliance, Inc. and  
E&Y Kenneth Leventhal Real Estate  
Group Contract Amendment

ITEM NUMBER: 7

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: July 7, 1999

INFORMATION: \_\_\_\_\_

PRESENTER(S): Mr. Pleis

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**EXECUTIVE SUMMARY**

Lazard Freres Strategic Realty Investors Fund 1 (LFSRI) is an opportunistic real estate fund held in the high-risk category of the CalSTRS real estate portfolio. In 1996, CalSTRS committed \$150 million to LFSRI. As of December 31, 1998, LFSRI was fully funded. Several months ago three of the four key individuals managing LFSRI left the firm. This type of management change triggers certain rights of the limited partners under the partnership agreement and will require specialized monitoring including an evaluation of several issues (i.e. new capital plan, new management team, changes to the partnership agreements).

To assist in the monitoring and evaluating process, staff is seeking Investment Committee approval to amend the Pension Consulting Alliance and E&Y Kenneth Leventhal (PCA/EYKL) contract. The scope of work for this special project was not included in PCA/EYKL's contract. The scope of work is to: (1) prepare a valuation report on the LFSRI's assets, (2) evaluate a Lazard Freres report including a hold/sell analysis on LFSRI's assets, (3) evaluate the proposed new management team, and (4) evaluate a revised capital plan. The cost of this special project will be limited to a maximum of \$50,000 with the actual expense billed on an hourly basis.

**Recommendation**

Staff recommends the Investment Committee's approval of Attachment 1 authorizing the amendment of PCA/EYKL's contract, limited to a maximum cost of \$50,000, with a scope of services as identified above.

RESOLUTION  
OF THE  
TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

SUBJECT: Authorization to amend Pension Consulting Alliance/E&Y Kenneth Leventhal's contract to assist in evaluating the Lazard Freres Strategic Realty Investors Fund

Resolution No. \_\_\_\_\_

WHEREAS, the Board is responsible for managing the Teachers' Retirement Fund (Fund), a Pension Fund; and

WHEREAS, the Board has delegated to the Investment Committee (Committee) the authority to enter into investment contracts which are recommended by the Chief Investment Officer or consultant engaged by the System; and

WHEREAS, staff has recommended that Pension Consulting Alliance/E&Y Kenneth Leventhal's contract be amended include the scope of work as follows: (1) prepare a valuation report on the LFSRI's assets, (2) evaluate a Lazard Freres report including a hold/sell analysis on LFSRI's assets, (3) evaluate the proposed new management team, and (4) evaluate a revised capital plan the LFSRI opportunity fund; Therefore be it

RESOLVED, that staff is authorized to amend Pension Consulting Alliance/ E&Y Kenneth Leventhal existing contract to perform the services identified with the cost of this special project limited to a maximum of \$50,000 with the actual expense billed on an hourly basis.

Adopted by:

Investment Committee

on \_\_\_\_\_

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James D. Mosman  
Chief Executive Officer